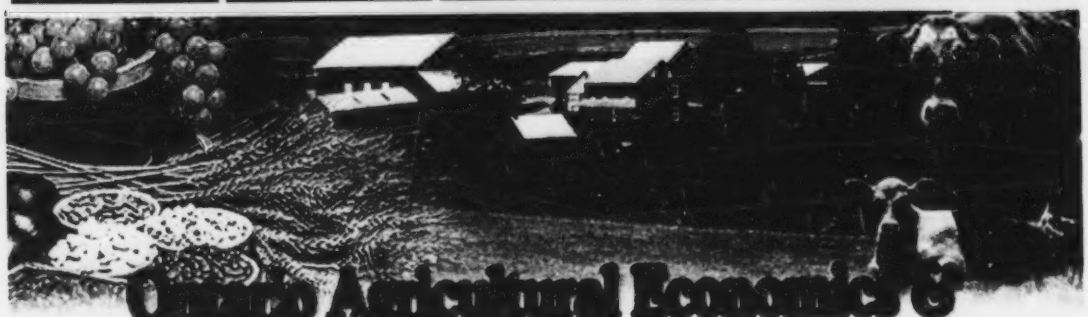
Ontario

Ministry of Agriculture and Food



Ontario Agricultural Economics & Business Research and Services Committee

2001 Annual Report to Ontario Agricultural Research and Services Committee

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EXECUTIVE SUMMARY

The Agricultural Economics Research and Services Committee (AE&BESC) met twice last year. The research priorities were amended and re-ordered to reflect current issues and needs. 2002 is the strategic review year for the Committee. An exhaustive analysis of issues, trends and needs will be carried out for that review.

The 2001 research priorities are ranked to reflect the current needs of the agri-food.

The seven main research areas, in priority order, are:

1) Environment
2) Linkage between the Agriculture Industry and the Rural Countryside

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3) Marketing
4) Trade
5) Risk Management
6) Competitiveness of the Agri-Food Industry
7) Economic Data and Benchmarking

The Committee also undertook an analysis of economic and business research and services recommendations contained in the year 2000 reports of other Research and Services Coordinating Committees and Sub-Committees. This information, and a follow up analysis of the 2001 reports, will be used in the industry scanning process for the coming strategic planning year.

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INTRODUCTION

This report is the third annual report for the Ontario Agricultural Economics and Business Research and Services Committee (OAE&BRSC).

The Agricultural Economics Research and Services Committee (AE&BESC) met twice year to further develop the issues listed under the research priorities and to revise its terms of reference. 2002 is the strategic planning year for the Committee. An exhaustive analysis of issues, trends and needs will be carried out for that review.

Linkages with other related Research and Service Committees and the University of Guelph research programs continue. Dr. Tony Fuller, Program Director of the Sustainable Rural Communities Research Program, and Mike Goss, Program Director of Resource Management and Environment Research Program, greatly contributed to the revision of the research priorities and their respective issues. The 2002 Strategic Review will be carried out in close cooperation with the Rural Research and Services Committee, as the OAE&BRSC carries out it's work in the context of agriculture's contribution to the rural economy and community.

The Committee also undertook an analysis of economic and business research and services recommendations contained in the year 2000 reports of other Research and Services Coordinating Committees and Sub-Committees. This information, and a follow up analysis of the 2001 reports, will be used in the industry scanning process for the coming strategic planning year.

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MANDATE AND TERMS OF REFERENCE

The purpose of AE&BRSC is to identify and prioritize future agricultural economics and business research and service needs of Ontario's agri-food industry stakeholders.

- To identify matters requiring agricultural economics research in the context of the problems and needs of the Province of Ontario.
- To communicate and discuss ongoing research with respect to objectives, procedures and results.
- To assess and make recommendations on:
    - Priorities which attach to the problems so identified;
    - Research needs and attach priorities in terms of research effort, that should be: (a) new (b) expanded, (c) maintained at current level, or (d) terminated;
    - Service needs in agricultural economics and business which should be initiated, modified, or terminated; and;
    - Effective co-ordination of research.

- To recommend institutions which, or individuals who, could effectively be responsible for particular research projects.
- To report annually to OASCC, summarizing the research area including recommendations on resource use and allocation.

Major interest areas of the committee are as follows:

- Agricultural Business Management And Production Economics:
  - cost of production
  - business planning models
  - business organization and finance
  - production economics.
  - impact of new technology on the farm/rural community
  - human resource capital and management
- Farm Competitiveness and Marketing:
  - market structure, conduct, and performance
  - the performance of policy, marketing boards, and the economy in general.
  - relationship between agriculture and the consumer
  - global marketplace
  - managing risk
  - environmental and land use economics

Committee Structure:

The Agricultural Economics and Business Research and Services Committee will decide if and when sub-committees and/or technical working groups are needed.

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SECTOR SCAN

The face of the Ontario agri-food industry continues to change. The farm population in Ontario continues to decline as a percentage of the overall rural population. At the same time Ontario farms continue to lead the nation in agriculture production from a diverse base of commodities and sectors with farm cash receipts of $6.0 billion in 1997.

Low world commodity prices for grains and oilseeds and high rates of agricultural supports in the USA, the EU and Quebec as compared to Ontario have placed enormous pressure on producers. This continuing commodity price problem is now coupled with the effect of escalating oil and natural gas prices on input cost in the field and horticultural crops. The outlook for net income derived from the market place in all crop sectors is bleak.

Few businesses will succeed by attempting to be the lowest cost producer. The need to move up the value chain or produce a specific product for a specific market is obvious. The management skill required to do so is much greater than that required of a commodity producer/seller.

There is a need to seriously look at the type of business structures that will succeed in the 21st century. Successful farm businesses are moving more and more to formal marketing arrangements and strategic alliance. However, some in the industry see these business practices as a threat to our traditional notion of an independent family farm business unit.

It is estimated that 120,000 Canadian farmers will reach 65 years of age in the next decade. These farmers manage $50 billion dollars worth of farm capital. In other words, $380,257 worth of farm assets will be transferred every hour of every day until the year 2014. This tremendous intergenerational wealth transfer will put a tremendous strain on the industry's ability to continue to grow, on individual manager's abilities to deal with both financial and human resources management issues, and in the social infrastructure of rural Ontario. Many, or perhaps most, of these farms will not continue to be owned by the same family.

A renewed interest in a life science economy holds opportunities to create markets for agricultural products and strong economic activity in rural Ontario. Much work needs to be done on baseline economic data, development of markets, sources of investment capital, and strategies for moving new products from a research stage to commercial production.

The whole area of agriculture, the environment and the impact on the broader rural community will be a challenge. Anticipated regulatory changes and continued public pressure will put increasing constraint and accountability of the farm sector to justify and account for farm production and business practices. This will continue to challenge the sustainability and viability of the agricultural economy.

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There is increased recognition among individual producers and agri-business firms of the need for true business risk management information and tools. Safety nets are one risk management tool. However true risk management is an integration of production, financial, marketing, and insurance and business structure management. This fact has been clearly recognized in the current Federal/Provincial discussions relating to the proposed Agricultural Policy Framework. Governments are signaling that the agriculture sector will need to adopt business and production management techniques that empower the sector to grow and reduce dependency on governments.

The growing concern of consumers, both domestic consumers and export market consumers, about the food they eat will have a significant impact on our whole production system. The potential for food safety concerns to impact the red meat sector in particular is enormous.

The Walkerton Inquiry and growing concerns over large livestock facilities have clearly signaled that the impact of the commercial agriculture industry will be under increasing scrutiny. Agriculture's impact on the rural countryside is not always view positively by other rural stakeholders. The industry will need to respond to these pressures.

Agriculture's labour management practices are coming under increasing scrutiny as well. The recently completed Coroner's Inquest into the death of three farm workers near Drayton in August 2000 concluded that the industry and governments can and must do a more effective job of protecting the safety of farm workers. As well, the Supreme Court of Canada recently upheld an appeal against the Provincial Government's 1995 repeal of the Agricultural Labour Relations Act. The Court upheld the fundamental right of farm workers to collective bargaining, while leaving it to the Government to address the best way to ensure this right is provided.

There are many other factors that will impact on the growth and economic viability of our agri-food industry in Ontario. Some of the additional factors are:

- The impact of the slowing provincial economy on rural communities and the agricultural economy
- Transportation
- Impacts on a commodity or sector basis of changing market structures
- Climate change
- Access to capital
- Changing financial structures
- Utility costs in a de-regulated environment
- Availability of affordable, skilled and trained agricultural workers in an expanding provincial economy
- Loss of rural communities as business trading centres
- Access to and management of information
- Biotechnology economics and research based information on impacts of bio-tech
- WTO and other trade agreements worldwide

These factors and many more will play key roles in how our agri-food industry will develop in the first decade of the new millennium. The challenge for the industry is to be ready to address these factors through whatever means necessary to ensure a strong, viable, and sustainable agri-food industry in Canada and closer to home here in Ontario.

Table 1. Incidence of Economic Research or Services Recommendations in other Research and Services Committee Reports

ECONOMIC PRIORITIES	NUMBER OF ECONOMIC PRIORITIES IN OTHER OASCC COMMITTEES			
	Animals	Field Crops	Horticultural Crops	Rural
Cost of Production and Benchmarks	13	2	6	
Competitiveness of Agri-food Industry				1
Consumer Acceptance of GMO's			2	
Effect of Energy Cost Increases		1	10	1
Effectiveness of Safety Nets		1	1	
Environment and Agriculture				3
Factors for Successful Small and Medium Sized Enterprises				2
Financing New Farm Operations	2			
Identity Preserved Crop Marketing		2		
Labour Management/Shortage	9		7	2
Marketing and Market Info/Expansion	9		10	1
Marketing Systems/Structure	8	2		
New Product Marketing	2			
New Uses/Value Added		3		
Trade Issues	1			
Total Economic Recommendations	**44**	**11**	**36**	**10**

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REPORT OF ACTION TAKEN SINCE LAST REPORT

The research priorities have been re-ordered and amended since the 2000 report, to reflect changing conditions in both the agriculture industry and the rural communities in which it operates.

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ISSUES

The seven main research areas, in priority order, are:

1) Environment
2) Linkage between the Agriculture Industry and the Rural Countryside

3) Marketing
4) Trade
5) Risk Management
6) Competitiveness of the Agri-Food Industry
7) Economic Data and Benchmarking

Priority 1 - Environment

Issue - Rural Ontario is changing. Farming units are fewer, but larger than in the past. The rural, non-farm population is growing and there is increasing conflict among neighbouring landowners due to the compatibility of their businesses and land use. Solutions to avoiding or resolving conflicts often require significant investment in technology or changes to operating practices.
The following sub-issues, listed in priority order, require further research in order for the agri-food sector to remain viable and the broader rural economy to remain sustainable:

1. Evaluation of the cost/benefit of Best Management Practices (BMP), such as provincial nutrient management.
2. Analyze the impact of bylaws, legislation, and international agreements related to environmental issues and the economic impact on agriculture, specifically, the interaction of agriculture with the broader rural environment and the cost of ensuring a strong agriculture base.
3. Access consumer awareness of environmental issues and evaluate the impact on their purchasing decisions.
4. Evaluate Green taxes and greenhouse gas emissions and the implication for agriculture.

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Priority 2 - Linkage between the Agriculture Industry and the Rural Countryside

Issue - Direct agriculture and related industry jobs continue to decline in rural Ontario. As it does, the influence of agriculture as a direct engine of economic growth will decline. As fewer people in rural Ontario actively derive their livelihood from the industry, agriculture is becoming valued more as an amenity to rural communities than as an economic force. This often puts the commercial interests of the industry at odds with the very amenity issues that other rural stakeholders value.

1. Further analysis of regional research studies conducted on the true economic impact of agriculture on the rural economy
2. Analysis ways to keep more of the jobs directly created by the agriculture industry in rural Ontario.
3. How do we best enhance agricultural value added opportunities in rural Ontario as an alternative to pursuing least cost large-scale production?
4. What are the impacts and opportunities for "multi-functionality" support to agriculture as seen in Europe. Are there effective mechanisms to compensate farm business owners for maintaining or enhancing the visual and aesthetic value of their operation?

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Priority 3 - Marketing

Issue - Ontario has developed strong, well known marketing systems which best meet the needs of producers and consumers. The regulated marketing system in Ontario has been a very positive contributor to our marketing efforts. Every commodity involved in either regulated or non-regulated marketing, however, is faced with new challenges when marketing its products given the global marketplace and its impact on Canadian and Ontario agricultural sectors.

Niche marketing and the demand for new products, including such things as identity preserved products, pose challenges for buyers and sellers in terms of meeting market demands.

Producers' consideration of their outputs as products instead of commodities has led to new challenges in the agri-food marketplace. The consolidation in wholesale and retail sectors has meant that there are fewer buyers then ever striving to meet profit targets and the ability to market effectively in that environment is challenged.

Issues such as Bio-safety protocols and perceived trade barriers as the result of crop or livestock disease outbreaks could have serious impact on our agri-food industry because of our dependence on trade with other countries, especially the United States.

Therefore the following sub-issues, listed in priority order, require more research:

1. Measure the impact of changes to regulated marketing for Ontario commodities.
2. Measure the impact of developing market opportunities (such as value-added, niche marketing and identity preservation).
3. Measure the impact of increased concentration in the agri-food sector on Ontario production (e.g. reduced processing capacity, fewer retail chains).
4. Determine how to develop stronger links to the consumer.

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Priority 4 - Trade

The ongoing move to a more global marketplace and the continued development of trade partnerships or alliances will create challenges and opportunities for Ontario agriculture.

We are all familiar with the World Trade Organization (WTO), but do we really understand what the WTO will mean for Canada and Ontario and our ability to trade in a world marketplace?

Smaller, but (maybe) more important, trading alliances such as North American Free Trade or potentially new and stronger alliances with countries such as China pose great opportunity coupled with great challenge.

Therefore, the following sub-issues, listed in priority order, require more research:

1. Develop projections on the world outlook after next round of negotiations - new barriers, new opportunities, items which have changed.
2. Examine the impact of trade agreements on Ontario and identify specific issues that might be different from the national interest.
3. Identify trade opportunities that are available to producers.
4. Assessment of trade distorting impacts of various government programs(eg. multi-function support - EU Style).

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Priority 5 - Risk Management

Issue - Farm organizations and political leaders have focused their "risk management" efforts almost entirely on safety net programs. There is increased recognition among individual producers and agri-business firms of the need for true business risk management information and tools.

The following sub-issues, listed in priority order, require further research:

1. Identify needs and develop new creative tools to help farmers and agents to integrate traditional risk management techniques with financial and farm management strategies (including long term management and succession planning).
2. Measure the impact of the current income disaster program, including program costs versus benefit and integration with existing safety nets. Also measure the impact of orientation of products versus commodities.
3. Cost/benefit analysis of meeting standards for food safety (e.g. HACCP at the farm level).

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Priority 6 - Competitiveness of the Agri-Food Industry

Issue - The Ontario agri-food industry continues to face large challenges in terms of competitiveness in the global marketplace. The fact that Canada relies so heavily on export markets for commodities as well as processed product is a key reason for us to consider the global marketplace and our ability to compete.

The trend towards consolidation right across the agri-food sector continues to be driven by the strong belief that there are efficiencies and economies of scale to be attained through larger operations, whether at the farm level or in the up-stream and down-stream sectors of the industry.

Changes in technology also play a significant, but controversial role when it comes to enhancing our ability to compete on a world market. The changes that are happening in our rural communities also impact our ability to compete in the domestic, as well as export, marketplace.

Therefore, the following sub-issues, listed in priority order, require further research:

1. Research Into future competitiveness with other jurisdictions, including open borders, supply management and subsidies as it relates to existing trade agreements i.e. NAFTA
2. Assess the impact of technology on the competitiveness of the agri-food industry.

3. Measure the impacts of fragmented land use planning and new property tax system, on the ability of the agri-food industry to remain competitive.
4. Develop research tools and processes for successful ownership and management succession of farm family business. Identify gaps and best management procedures.

Priority 7 - Economic Data and Bench Marking

With the continued movement to a global marketplace it is critical to have accurate economic data and effective benchmarks to determine our producers' ability to compete in that marketplace.
The key issue identified which requires more work is:

1. Analyze the cost of production by commodity for Ontario versus other jurisdictions and within Ontario, comparing different production and business models.

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Service Recommendations

No service recommendations were made this year.

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APPENDIX A: COMMITTEE MEMBERSHIP IN 2000

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